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# National Grocers Association

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December 16, 1997

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12/19/97

Cynthia L. Johnson  
Director, Cash Management Policy Planning Division  
Financial Management Service  
U.S. Department of the Treasury  
401 14th Street, SW - Room 420  
Washington, DC 20227

RE: Management of Federal Agency Disbursements; Notice of Proposed Rulemaking; 62 Fed.Reg.#48714 (September 16, 1997)

Dear Ms. Johnson:

The National Grocers Association (N.G.A.) takes this opportunity to respond to the Financial Management Service's (FMS) notice of proposed rulemaking to convert all federal payments (other than Internal Revenue Code payments) from checks to electronic funds transfer ("EFT") by January 2, 1999.

N.G.A. is the national trade association representing the retail and wholesale grocers who comprise the independent sector of the food distribution industry. This industry segment accounts for approximately one-half of all food store sales in the United States.

The Debt Collection Improvement Act of 1996 requires federal agencies to convert all federal payments, other than payments under the Internal Revenue Code, from checks to electronic funds transfer by January 2, 1999. N.G.A. members are vitally concerned with the development of an electronic funds transfer (EFT)/electronic benefits transfer (EBT) system. For years, N.G.A. members have been involved with the conversion of food stamp benefits from a paper coupon system to an EBT system. However, based upon the experiences of N.G.A.'s members with the conversion of food stamps to EBT, N.G.A. strongly urges the Treasury Department to involve the retail community in the process prior to implementing any electronic funds transfer mandate, especially with regard to the development of any debit card based account for individuals who are required to receive payments by EFT and do not have an account with a financial institution.

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**NATIONAL GROCERS ASSOCIATION**

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### **FEDERAL TASK FORCE REPORT EMPHASIZES NEED FOR RETAILER INPUT**

The need for retailer input was spelled out by the Federal Electronic Benefits Transfer Task Force in 1994 and should serve as a cautionary message for the Treasury Department before mandating accounts for the approximately 10 million individuals who receive federal payments and do not have an account with a financial institution. Retailers who provide financial services for consumers, either at point of sale (POS) or through an on-site automated teller machine (ATM), have essential interests in the procedures the Department may adopt.

The Federal Electronic Benefits Transfer Task Force issued a report in May 1994 titled, **"Creating a Benefit Delivery System That Works Better & Costs Less,"** *An Implementation Plan for Nationwide EBT*. This report clearly stated the vision for Electronic Benefit delivery - "Simply put, our goal is to make EBT **nationwide** in the fullest sense - one card, user-friendly, with unified delivery of government-funded benefits under a federal-state partnership."

The National Strategy was specified as, "The Task Force will provide the leadership for the development of an integrated, nationwide EBT payments system providing recipients with access to all their government benefits, even across state lines."

Also, the Task Force recognized that it would fulfill the following needs: *"Develop standards for a uniform, commercially compatible EBT operating environment, so that retailers and financial institutions can tie into federal and state-sponsored EBT systems that support interstate transactions for multiple programs."*

**"Current law prohibits the government from forcing food retailers to incur the costs associated with EBT system installation in order to participate in EBT. Retailers have expressed concern that government efforts would force them to use special equipment, link to non-standard networks, and establish new banking or processing relationships. Retailers want to work with the government to overcome obstacles and to implement a national EBT strategy that is consistent with their business needs."**

**"Retail Merchants:** Perhaps more than any other private sector group, merchant support is vital for EBT implementation and delivery of benefits. Retailers provide food stamp recipients an outlet for redeeming their electronic benefits for eligible food items. **Merchants also provide other EBT services for recipients, including cash benefit purchases through merchant POS, cash back services, and assistance on EBT's use and access. In providing these services, merchants want to meet customer needs through uniform, cost-effective, and reliable EBT operations, consistent with industry standards."**

In implementing EBT nationwide, the Task Force recommends building on the commercial infrastructure for two reasons:

- The system works, and it works well. Customers of one financial institution can seamlessly access their accounts from ATMs across the country and POS devices throughout their area. In the near future, they will have access to POS nationwide.
- Card issuers and transaction originators or acquirers participate in regional and national alliances that consistently, and precisely, coordinate the exchange of transactions, funds, and information. **These alliances operate under a common set of rules.**

It is clear from these excerpts that, over three years ago the federal government made a commitment to nationwide, uniform, commercially compatible EBT operating systems, including EFT transactions involving Social Security and other government benefits.

#### **EFT ACCOUNTS AND RETAIL CONCERNS**

In its preliminary comments, the Treasury Department has indicated that no final decisions have been made on the attributes of EFT accounts for those individuals who do not have an account. Further, the Treasury has indicated the individual EFT accounts, in its preliminary review, would be directly accessed via plastic debit card at the financial institution's ATMs or POS terminals. Treasury further asked whether this debit card-based account should be made available to third party outlets in addition to the financial institutions.

Clearly, food retailers who have ATM and POS devices are natural third parties which consumers use to either access their funds for grocery purchases or make withdrawals. Retailers should be permitted to recover costs incurred by serving consumers with these financial devices. However, the Treasury Department must carefully evaluate any financial institution's proposal for EFT accounts to assure that the multitude of retail systems that exist may be able to effectively participate for consumer's benefit. The Treasury Department should not permit financial institutions to design an EFT account system that imposes costs on food retailers who already incur costs related to EBT and other payment systems, with the ultimate benefit of increasing a financial institution's profitability.

Since Treasury has not made any final decisions on the attributes of the EFT account, N.G.A. members strongly oppose off-line debit card type transactions being designed to be part of this system. Such transactions impose unnecessary costly interchange fees from financial institutions on retailers. Only on-line transactions should be permitted. This is especially important as states begin to use a single card for the delivery of

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federal and state payments other than food stamps under state EBT programs, such as the Southern Alliance of States.

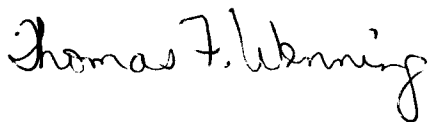
Also, the Treasury Department indicates that financial institutions who bid on EFT accounts for unbanked individuals will be able to recover reasonable costs. The rules for EFT accounts should not permit financial institutions or the government to shift costs onto retailers. N.G.A. members strongly oppose financial institutions being able to profit from third party transaction fees which may be forced on retail establishments.

#### **CONCLUSION**

As the Treasury Department proceeds with plans to solicit financial institutions to bid on the design of EFT accounts, the retail community and other interested parties should be a part of the Request for Proposal process. An open process is the only way that an EFT system for unbanked individuals can be designed efficiently and cost-effectively for all parties involved in the delivery of benefits to the ultimate recipients.

N.G.A. would be pleased to be represented in such an open process.

Sincerely,

A handwritten signature in cursive script that reads "Thomas F. Wenning".

Thomas F. Wenning  
Senior Vice President and General Counsel

TFW/sh